Institute and Faculty of Actuaries

Thematic Review report

Pension scheme design: actuarial advice on changes to member benefits

by David Gordon

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Foreword

Neil Buckley, Lay Chair of the IFoA Regulatory Board

> **The Board encourages all pension actuaries to reflect on the review findings to further enhance their work for clients and ensure alignment to existing standards.**

I welcome the publication of the Actuarial Monitoring Scheme's (AMS) tenth report, Pension scheme design: actuarial advice on changes to member benefits. This continues the regulatory work of the Institute and Faculty of Actuaries (IFoA) in independently reviewing key areas of work in which actuaries have significant involvement and influence. I would like to thank all those IFoA members and organisations that took part.

The Regulatory Board was pleased to receive this helpful and informative report, and welcomes the overarching finding that actuarial work is of good quality with sound levels of compliance with standards. Advice in this field can cover a range of diverse topics and is provided in different ways, depending on the client relationship and their level of pension knowledge. We wish to highlight the key theme running through the findings that actuaries should explain more fully how potential defined benefit (DB) design changes might affect members, whether it's the benefit itself, the inflationary impact or the potential effect on means-tested state benefits.

In light of the review findings and conclusions, we will discuss with fellow regulators whether any action outside the IFoA's remit is warranted and will explore how the issues raised can be addressed through IFoA professionalism resources.

The AMS aims to promote ongoing high-quality actuarial work in the public interest. The report highlights areas where actuaries can further improve how advice is delivered to clients, and showcases good practices already being adopted by our members in this field. The Board encourages all pension actuaries to reflect on the review findings to further enhance their work for clients and ensure alignment to existing standards.

Neil Buckley
Lay Chair of the IFoA Regulatory Board

June 2025

Introduction

David Gordon, Senior Review Actuary

I look forward to discussing this report and its findings with regulators and other stakeholders with an interest in pension scheme design advice.

I am delighted to launch this tenth AMS report which covers pension scheme advice on changes to member benefits.

I would like to thank those actuaries from 11 organisations who took part in this review, which included scrutiny of 41 examples of advice and in-depth conversations with some of the actuaries involved.

Our key findings and conclusions are set out in the Executive summary. The report also contains a high-level summary of the advice we reviewed and case studies showcasing examples of good practice. There is a wide range of advice given in this area, both in terms of subject matter and style. However, we found actuaries followed the principles of the actuarial standards in their work without treating them as a compliance exercise.

Although the subject of this review is pension scheme design advice, our findings that actuaries do not always explain how the benefit changes might impact members, and did not always explain that changes may impact on the eligibility for means-tested state benefits may be relevant to other areas of actuarial work.

I look forward to discussing this report and its findings with regulators and other stakeholders with an interest in pension scheme design advice.

David Gordon
Senior Review Actuary

June 2025

Executive summary

These headline findings and conclusions aim to help improve the quality of advice given by actuaries on pension scheme design:

Overall standard of advice

The overall standard of the examples we reviewed was good. Submitted material showed consistently sound levels of compliance with relevant standards and guidance.

Consideration of members

Actuaries do not always adequately explain how the benefit changes might impact members. Although the advice we reviewed was addressed either to the trustees or the pension scheme sponsor, actuarial standards require the advice to explain how the benefit changes will affect members' benefits and their risks.

Impact of inflation

Actuaries did not always adequately explain how proposed changes would affect the inflation protection on members' benefits. Many of the types of scheme design considered included changes to the way that benefits are increased each year. The advice did not always cover changes to inflation risks and often did not refer explicitly to the recent UK inflation spike in 2021 to 2024.

Means-tested benefits

Actuaries did not always explain how pension scheme benefit changes may impact on individuals' eligibility for means-tested state benefits. Some pension scheme design projects result in a material step-change to the level of a member's pension income, or lump sum. This may affect means-tested benefits.

This contrasts with pensions tax, where a step-change in pension income could trigger a tax charge for the individual. The advice we reviewed invariably addressed this point.

Actuarial standards

Actuaries were not consistent in the actuarial standards they stated they were following. Some types of pension scheme design advice are covered by **TAS 300, pensions,**[1] although not all actuaries confirmed they were applying that standard. Other types of pension scheme design advice are not covered by TAS 300, although some actuaries nevertheless confirmed they were applying it.

Business environment

The UK DB pensions world is changing with potential benefit changes being made in conjunction with surplus refunds and on winding-up. Trustees and sponsors will need actuarial advice in these areas, alongside the traditional areas of benefit design considered in this review, to ensure that different categories of members are treated appropriately. This means continued challenges and complexities for actuaries providing advice in this domain.

Key conclusions

The overall standard of the examples we reviewed was good. There are, however, examples where advice could be improved, to enhance the deliverable to the client, to demonstrate that existing actuarial standards and guidance are being met more clearly and to ensure the appropriate outcomes for pension scheme members.

This report aims to help actuaries to develop their advice in this area, focusing on the key themes from our findings and the good practice examples we observed. This report also provides important context for the IFoA and other regulators in considering regulatory actions to further support members providing pension scheme design advice.

1 | FRC: TAS 300: Pensions, version 2.0 (2023)

Report structure

How this report should be read

We have set out the detailed results of our thematic review. The Executive summary sets out our key findings and conclusions; a full list can be found in the **Findings section**.

Findings

The main output of this review is a series of findings based on the examples of actuarial work submitted and on conversations with the actuaries who prepared the work. Each of the findings is based on what we observed across a number of the examples reviewed, or what we heard during several conversations.

As the examples were provided across five areas of pension scheme design work, we only received a small number of examples for each specific area. Some of the findings relating to that specific area are therefore based on observations across only one or two examples. In these cases the findings are preceded with 'In isolated cases'.

Good practice

During this review we observed instances of what may be considered good practice. Each good practice example is based on one or more of the examples of advice we reviewed. Note that the appropriate wording will depend on the specific context so the same wording may not be appropriate in all scenarios. There will be other ways of conveying a particular point.

References and abbreviations

Referenced documents or webpages are indicated by footnotes on the relevant page. A full list of documents is set out in **Appendix 2 – References**. Although abbreviations are defined when they first appear in this report, a full list is set out in **Appendix 3 – Abbreviations**.

Terminology

The following terminology is used throughout:

- **Pension scheme** – the pension scheme that is subject to the examples we reviewed. Some advice may have referred to more than one pension scheme sponsored by the same sponsor. The pension scheme may also be a 'plan' or a 'trust'.
- **Trustees** – this refers collectively to the individually appointed trustees; the sole corporate or individual trustee responsible for the pension scheme.
- **The sponsor** is the employer sponsoring the pension scheme. There may also be multiple sponsoring employers to the pension scheme.
- **The actuary** – author or authors of the advice under review where the comment is relevant to both trustee or corporate actuaries. In some cases, where relevant, we refer explicitly to the scheme actuary appointed by the trustees.

Note on TAS compliance

A number of our findings reference particular provisions of **TAS 100**[2] or TAS 300. This type of finding indicates that we did not find evidence that actuaries had taken all the steps that might be expected to meet the requirements of a particular TAS provision, and is based on the review of the examples submitted to us.

2 | FRC: TAS 100: General Actuarial Standards, version 2.0 (2023)

There may be other 'component communications', for example earlier advice on the topic, or the latest actuarial valuation report, that were not provided to us that contained further relevant information. The actuary may also take the view, in accordance with the FRC's **Technical Actuarial Guidance on Proportionality**,[3] that the work required to provide the information is not *"proportionate to the nature, scale and complexity of the decision or assignment … and the benefit that the intended users would be expected to obtain from the work"*, or that the information is *"unlikely to have a material effect on the decisions of intended users"*.

The nature of this review is such that we did not have the evidence to test these points fully in relation to all submissions; moreover, the purpose was not to determine whether or not a particular example complied with TAS requirements.

Most of the examples submitted to this review were prepared under version 2.0 of TAS 100 and TAS 300 (where relevant) which came into effect from 1 April and 1 December 2023 respectively. All references in this report are to these updated versions.

Status of report

This report has been prepared by the IFoA Review Team and is issued by the Regulatory Board of the IFoA. Its purpose is to report on findings of the thematic review on the advice of actuaries on pension scheme design.

This report imposes no obligation upon members over and above those embodied in **The Actuaries' Code (the Code)**[4] or the **IFoA Standards Framework**,[5] which includes compliance with the TASs set by the FRC. It is intended to be helpful to the IFoA and other regulators when considering developments in regulation. It is also intended to assist actuaries in their work.

This report does not constitute legal advice. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA does not accept any legal liability in relation to its content.

Review of this report

The report has been subject to review by a member of the IFoA Pensions Board who did not otherwise take part in the review. This is considered by the author to meet the Work Review requirements of **Actuarial Profession Standard (APS) X2**.[6]

We wish to thank the reviewer for their comments, although the contents of this report, in particular the findings and conclusions, remain the responsibility of the IFoA Review Team.

Conflicts of interest

We are not aware of any conflicts of interest arising from the contents of this report in relation to the IFoA Review Team that carried out the work or the Regulatory Board that has commissioned the review work.

Questions about this report

We welcome questions about this report which should be sent to **reviews@actuaries.org.uk.**

3 | FRC: Technical Actuarial Guidance: Proportionality (2024)
4 | IFoA: The Actuaries' Code, version 3.1 (2023)
5 | IFoA: Standard Setting at the IFoA (2020)
6 | IFoA: APS X2: Review of Actuarial Work (2015)

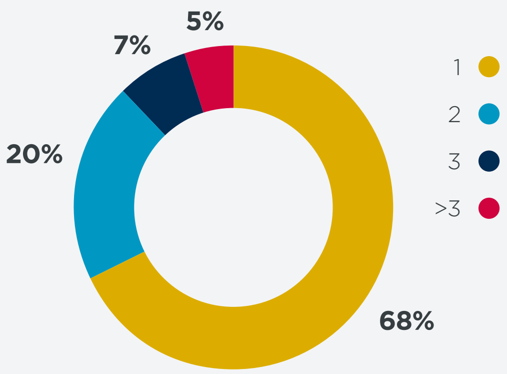
General findings

Findings across all types of design advice

We received 41 submissions from 11 organisations for this review. In 70% of examples submitted, the advice was addressed to the trustees.

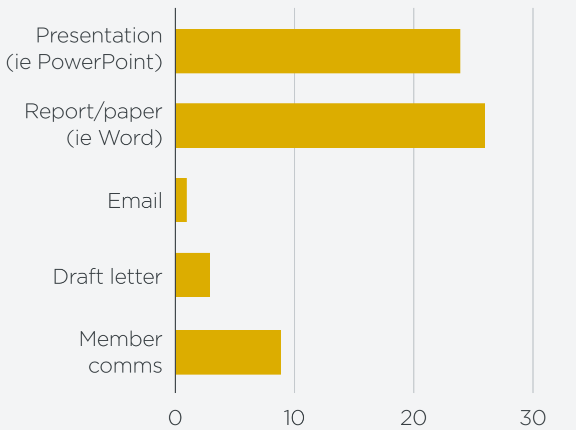
The number of documents submitted in relation to each example ranged from one to six. The distribution is shown in the pie chart:

Number of documents submitted per example



The type of document submitted is shown in the bar chart:

Number of documents in each format



See **Appendix 1** for more information on the way we carried out this review and the submissions we received.

In this section we highlight general findings that were apparent across multiple types of pension scheme design advice. The box gives some statistics about the examples submitted to us.

We comment further on the way actuaries provided advice across the specific subject areas of pension scheme design advice in the **next section.**

The majority of the examples were presentations or reports on the proposals, addressed either to the trustees or the sponsor of the pension scheme. Some of the advice appeared to be drawn from templates and others were specific to the particular benefit change being proposed. We also received several examples of communications to affected pension scheme members that had been largely drafted by the actuary.

Finding 1:

There is a wide range of types and formats of advice given by actuaries on pension scheme design.

Consideration of members

The common thread linking the advice in this review is the consideration of changes to the benefits payable to pension scheme members. The examples invariably and as expected focused on the interests of the addressee of the advice – the pension scheme trustees or the sponsor. However, the examples did not always adequately explain how the proposed changes would impact on the members themselves. For examples subject to TAS 300, communications must include information to enable the trustees or sponsor to understand *"how different classes of members might be affected"*. For other advice where changes are being considered, the communications principles of both the Code and TAS 100 might suggest that users should have a good understanding of the benefit changes being considered and how they might affect members.

In some examples benefit changes were illustrated either numerically or graphically, with the latter in particular being used to illustrate the progression of different benefits in future years, including potential cash flows.

As well as the level of benefit changes themselves, the risks facing members are sometimes not clearly highlighted. For example changes to the way a pension is increased will be affected by inflation risk; offering a lump sum in exchange for annual income will be impacted by longevity risk. Under TAS 300 the actuary needs to consider *"any changes in the material risks to the benefits of the different classes of members"*.

Finding 2:

Actuaries do not always adequately explain how the benefit changes might impact members. Although the advice we reviewed was addressed either to the trustees or the pension scheme sponsor, actuarial standards require the advice to explain how the benefit changes will affect members benefits and their risks. [TAS 300: 4.1]

Impact of inflation

As noted above, many of the changes under consideration in pension scheme design advice relates to the way pensions increase each year for members. This could be a discrete discretionary pension increase, a member options exercise affecting pension increases, or a Guaranteed Minimum Pension (GMP) conversion project, where the way an individual's pension is increased in future may be amended.

We found across many types of exercise the way inflation would affect members was not highlighted. In particular there were few references made to the **recent inflation spike**[7] from 2021 to 2024. Many of the examples of advice were provided in the aftermath of this experience, where inflation-protection, or the lack of it, would be brought into sharp focus.

Good practice example:

The UK is currently experiencing a period of high short-term inflation with the Bank of England predicting CPI to be around 11% in the autumn of this year [2022]. The current level of inflation may influence a member's decision on whether or not they wish to exercise the option. Clear communication with members explaining how the option works is key.

Finding 3:

Actuaries did not always adequately explain how proposed changes would affect the inflation protection on members' benefits. Many of the types of scheme design considered included changes to the way that benefits are increased each year. The advice did not always cover changes to inflation risks and often did not refer explicitly to the recent UK inflation spike in 2021 to 2024.

Means-tested benefits

Many of the types of pension scheme design advice related to pension scheme members being awarded or being given the option of an increased level of annual pension or the option of a lump sum instead of some or all of their pension. One of the effects of this for the member may be a change in the eligibility for certain state and other means-tested benefits. These may cease or reduce if an individual's income or savings cross a threshold. It may be in a member's interest to continue on a slightly lower level of income due to the generosity of state benefits that would otherwise be withdrawn.

This issue is only likely to affect pensioners on lower incomes. It is also unlikely that the pension scheme will be able to identify exactly which pensioners could be affected since the administrators will be unaware of the individuals' personal circumstances, for example other sources of pensioner income and eligibility for particular state and other benefits. In most examples we reviewed, there was no mention of means-tested benefits. However, in a few examples we saw comments about means-tested benefits and the importance of referring to them in communications.

7 | House of Commons Library: Rising cost of living in the UK (2024)

Good practice example:

[Extract from member communication]

Q. I receive means-tested benefits from the State. If I choose the cash lump sum will it affect my eligibility for these State benefits?

A. Receiving a cash lump sum may well affect any means-tested state benefits you receive – for example, housing benefit or council tax reduction (also known as council tax support). This is because it increases your capital – or the amount of money you have access to, as well as your income for the relevant year. Having more capital can also affect your entitlement to pension credit.

You can find out more about this on **www.gov.uk** to see if it would affect you and you may need to take advice from a tax adviser before taking the cash lump sum option if you think this would affect you.

This contrasts with pensions tax issues – an increased pension may affect an individual's annual allowance position or their pensions tax protections. This issue is only likely to affect pensioners on higher incomes and it is unlikely that the pension scheme will be able to identify everyone affected due to the individuals' personal circumstances, for example other pensions savings and existing pensions protections. However, we found that actuaries normally referred to the potential pensions tax implications of providing members with an increased pension.

Good practice example:

Tax implications for members

Members who consider accepting an [option] offer need to consider whether this has any Lifetime Allowance or Annual Allowance implications for them.

This is not an important consideration for the majority of members but those with higher benefits may incur additional tax charges as a result of taking the option.

... [explanation of allowances]

These potential tax issues will need to be flagged to members in the communications and the adviser should be made aware of the implications.

We expect actuaries are more familiar with pensions tax issues than means-tested benefits. However, when affected, the impact of either may be significant to an individual pension scheme member.

Finding 4:

Actuaries did not always explain how pension scheme benefit changes may impact on individuals' eligibility for means-tested benefits. Some pension scheme design projects result in a material step-change to the level of a member's pension income. This may affect means-tested benefits.

This contrasts with pensions tax, where a step-change in pension income could trigger a tax charge for the individual. The advice we reviewed invariably addressed this point.

Member communications

We saw examples of member communications across several work-types. These had been drafted by an actuary and were subject to review by the trustees or sponsor and often also legal advisers. These communications were intended to inform members of the changes to benefits that were going to affect them. Where we received the member communications, it was often provided to us alongside the associated advice to the trustees or sponsor on the associated proposal.

We reviewed communications against the Code requirements to *"communicate appropriately"* and that the material *"is accurate, not misleading, and contains an appropriate level of information"*. We did not assess communications for wider TAS requirements such as data, assumptions and compliance statements.

In most cases, the communications were clear and provided the appropriate level of information.

For communications relating to the change from defined benefit to defined contribution (DC), the change in the nature of the risks could have been explained more fully. In those cases members were sign-posted to other information and advice resources where such explanations may have been provided.

We found in one or two cases the language used was not totally consistent, which risks confusing readers who are not knowledgeable in pensions. For example, the similar terms: 'DC Scheme', 'defined contribution pension scheme', 'defined contribution pension', 'defined contribution scheme', 'Group Personal Pension Plan', 'GPP' were used interchangeably in one document.

Finding 5:

In isolated examples actuaries did not use terms consistently throughout the member communication, which risks misunderstandings. [Code 6.3]

Length and complexity of advice

Across multiple types of advice we saw lengthy reports and papers. These were providing detailed advice on various aspects of a pension scheme design project. We also saw multiple reports relating to a specific assignment. Good practices we saw in these instances included a decisions log reminding the trustee or sponsor of the previous decisions taken, and/or previous training received. The documents themselves often contained executive summaries and contained internal links to assist on-line navigation. These aspects are not technical but assist with the actuary's obligations under the Code to communicate appropriately.

Finding 6:

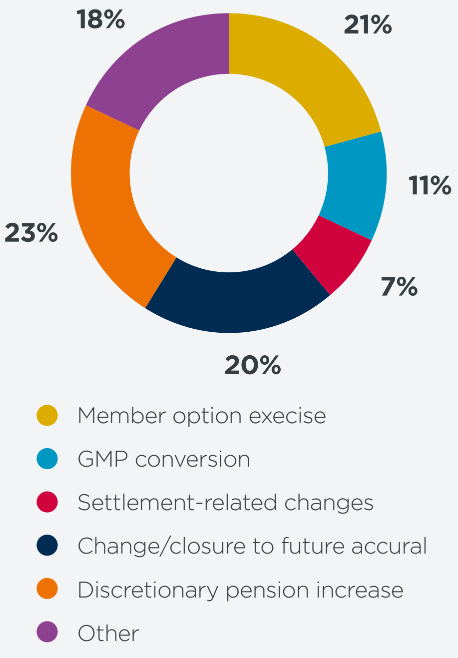
In longer examples, actuaries used good communications practices to increase chance of user understanding. [Code 6]

Specific types of advice

Findings relating to different types of pension scheme design advice

In this section we identify findings and other observations relating to the specific types of pension scheme design advice submitted to us for this review. As noted in the **scope section** we asked for examples in specific areas of pension scheme design advice, and asked organisations to provide examples broadly consistent with the amount of advice given in recent years. The subject matter of the advice (as described by the organisations themselves) is set out in the pie chart:

Type of advice



Member option exercises

Member option exercises are projects where the sponsor or the trustees offer the pension scheme members a new option to change the timing or form of their benefits, or highlight to members a particular option that has always been available. Projects can be one-off, when the option must be taken up within a specific timeframe, or ongoing where members are offered the option going forward when they reach a particular age. We heard these projects have been less common in recent years.

Member options offered in such an exercise may include one or more of:

- **Trivial commutation**, where a member with a small annual pension is offered to exchange it for a one-off lump sum;
- **Bridging pension option**, where the member is offered a higher 'bridging' pension in the early years of retirement up to state pension age, before reducing to take account of the state pension then payable;
- **Pension increase exchange**, where some or all of a member's pension subject to annual increases is exchanged for a higher, non-increasing pension;
- **Early retirement,** where the member draws their pension early; or
- **Transfer value,** where the value of the pension is transferred to another pension arrangement.

These options may be attractive to pension scheme members as they can change the timing or nature of their benefits, which may suit their intended lifestyle. These options can be attractive to the sponsor or trustee of the pension scheme as they may bring forward, simplify or reduce the scheme's liabilities and provide more flexibility to members. They may also make the scheme benefits more 'insurable'.

The nature of the advice we reviewed ranged from an overview of multiple potential options, to detailed advice on the implementation of a particular option. We also saw examples of member communications relating to an options exercise. We heard that this type of advice was often prepared by a team of subject matter experts within the organisation.

The advice in this area was relatively complex with sometimes lengthy reports. We saw good examples of well-constructed reports with executive summaries, and good signposting and cross-referencing to make them easy to follow.

Advice on member options was provided against the background of the pensions industry **Code of Good Practice**,[8] which sets out how trustees, sponsors and their advisers should act when new options are being offered to pension scheme members.

8 | Incentive Exercises Monitoring Board: Incentive Exercises for Pensions – A Code of Good Practice, version 2 (2016)

Finding 7:

Member options advice referenced the Code of Good Practice.

We also saw cases where the actuary set out reasons from the member perspective why an option may or not be attractive.

Good practice example

Members' personal circumstances and risk tolerances can change over time and a number of factors could influence how individuals may think of the choices they are being offered. Below are some of the member considerations when faced with this decision:

- In favour of taking up the option...
- Against taking up the option...

Some of the specific member options were only covered in one or two individual examples. It is therefore not sufficient evidence for a finding. However, in relation to the offer of a bridging pension option, we observed there was very little reference to the significantly higher lump sum that is typically available under such an option. Given some members may be attracted to a higher amount of cash it was surprising this was not mentioned in more detail. **The general finding relating to means-tested benefits** was also relevant for this type of member option.

Finding 8:

In isolated examples relating to bridging pension options, the actuary did not emphasise the impact on the lump sum.

Discretionary pension increases

The review also covered advice relating to the potential award of discretionary pension increases to some or all scheme members receiving a pension. Although this type of advice may not always be viewed as 'pension scheme design', as there is no rule change, the actuary's advice may nevertheless have an effect on the benefits paid to members. We were also interested in this area of advice given the spike in inflation seen in 2021 to 2024.

Advice given in relation to pension increases was typically provided to the trustees and was given in the context of the relevant rule, which is specific to each pension scheme. These give varying roles to the trustees, the sponsor and the scheme actuary in the decision on whether to award a particular pension increase. We also reviewed a small number of examples addressed to the sponsor, which provided advice in relation to their role in the exercise. In some cases, the advice appeared to be given every year; in others the advice was provided on a one-off basis following the recent period of higher inflation.

Most examples in this area quantified the cost of providing a particular level of pension increase and potential variations and set that cost in the context of an estimate of the current funding position. Examples also included other useful information including the following:

Good practice example

The discretionary pension increase advice provided information covering:

- What increases are pre-funded?
- What impact does a particular potential increase have on liabilities?
- What is approximate funding position for context?
- How have members' pensions been affected by inflation cumulatively?

Plus non-actuarial information:

- Who has a role in deciding on a discretionary increase?
- Which elements of pension receive a guaranteed increase?
- What increases have been given in recent years?
- What has inflation been in recent years?
- Where there are different benefit categories, how many members might be affected by different potential increase levels?

These non-actuarial items are useful and may assist the trustees or sponsor in their decision. They may however be provided by others – for example the pensions administrator, the pensions manager or the legal adviser – in conjunction with the actuarial advice.

We found however in isolated instances cases where it was not clear whose decision was required to award the increase. Although we assume this information was readily available to the reader of the advice, it would make the advice of the actuary clearer to include such a reference and is consistent with clear communication.

Finding 9:

In isolated examples, actuaries providing advice on discretionary pension increases did not cite the relevant pension scheme rule setting out who has a role in deciding on the increase. [Code 6]

Isolated examples of discretionary pension increase advice were among those **noted above**, where there was no reference to the recent inflation spike seen in 2021 to 2024.

GMP conversion

GMP conversion is where GMPs are being converted into a 'normal' scheme pension, partly as a consequence of the need to equalise benefits for men and women for the effect of GMPs following the **2018 Lloyds judgment.**[9] The judgment set out a number of methods, including GMP conversion, where the equalisation was achieved by providing benefits of the same overall actuarial value to men and women. The advice is typically provided against the background of the Department for Work and Pensions (DWP) **Guidance on GMP conversion**.[10] We did not seek as part of this review more general advice in relation to GMP equalisation as this is more administrative in nature. Like for member options exercises, we heard that GMP conversion advice was often prepared by a team of subject matter experts within the organisation.

The GMP conversion examples were typically relatively lengthy as they were providing advice on multiple decisions to be taken by the trustees. The comments relating to the **length and complexity of advice** apply. It is particularly important for this type of advice to be laid out in a clear manner with signposting to assist the reader with the process and previous advice, including training and decisions.

Good practice example

The GMP conversion advice provided information covering:

- Examples of how an individual member may be affected at different ages
- Commentary on how the member's inflation exposure may change following GMP conversion
- Sensitivities illustrating how an individual's benefits may progress with differing rates of inflation
- Pensions tax implications

Plus non-actuarial information:

- Decisions log
- Summary of earlier advice, including training
- Clarity on decisions to be taken
- 'Jargon buster' section reminding users of key terms
- Potential implications on means-tested benefits

Settlement-related changes

Settlement-related changes are often scheme-specific exercises to make adjustments to certain benefits with the aim of enabling a smoother transition to buy-out and eventual wind-up of the pension scheme. The examples we saw in this area were bespoke advice covering very specific situations, for example the removal of optionality or underpins that very rarely 'bite'. The advice was given in terms of the ability to provide 'section 67' certification (relating to the impact of the proposed change on accrued benefits), along with other, less actuarial, comments. We also saw advice on the appropriate allocation of surplus to increase members' benefits on wind-up.

9 | E&W High Court: Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank PLC and others (2018)
10 | DWP: Guidance on the use of the GMP conversion legislation (2019)

Change in accrual

Although a large proportion of UK pension schemes have already closed to future accrual of DB benefits, we received several examples of advice relating to overall closure of the scheme to benefit accrual. The examples we saw often related to a very small number of employees remaining in active service, reflecting a lengthy period since the closure of the scheme to new entrants. We also saw examples where the scheme had previously been amended to ‘freeze’ or restrict pensionable salary increases.

The examples we saw in this area were typically bespoke and addressed the information that employees would need as part of any consultation exercise. We also saw some examples of member communications providing during such consultation exercises.

Compliance

TAS and Code compliance

We considered the relevant provisions of TAS 100, TAS 300 and the Actuaries' Code and are pleased to report good evidence to suggest compliance, particularly with the Code. The majority of examples covered most of the provisions of the TASs and the Code. The exceptions to this are highlighted in this report and reflect where we saw practices across a number of examples.

Finding 10:

The overall standard of advice was good. Submitted material showed consistently sound levels of compliance with relevant standards and guidance.

We have already highlighted areas where there was not always evidence to demonstrate compliance, for example, the impact of changes on member benefits. The findings in this section relate to all the types of advice we reviewed.

Documentation of data

In many of the examples we reviewed, the actuary set out an estimate of the financial impact of the potential change in benefits. This estimate was typically based on the membership data provided for the latest actuarial valuation of the scheme. This data source was always made clear. However, it was not always clear why the actuary believed this data source was appropriate for the pension scheme design advice or carried our any checks on it. For example, the advice may relate to a small section of the scheme or to specific benefits where the level of precision in the calculations differs from the most recent actuarial valuation of the scheme as a whole.

In the best examples we saw, there was a clear statement from the actuary of why the data source was believed to be appropriate for the exercise. This is more appropriate to meet the requirements of TAS 100 than statements such as *"We have relied on the information provide as being true and accurate, and have made no attempt to validate its accuracy".*

Good practice example

We have relied on the following data when drafting this report… We have relied upon the information provided as being complete and accurate. We have undertaken high-level reasonableness checks on the accuracy and completeness of the data to determine its appropriateness for this exercise, but cannot verify its accuracy.

Finding 11:

Actuaries did not always adequately indicate the appropriateness of the data for the exercise. [TAS 100: A7.4]

Sources of information

In the **Corporate pensions thematic review**,[11] we found that it was *"not always apparent whether the corporate or the scheme actuary had derived each liability figure contained in advice".* We were pleased that the sources of information used by the actuary were mostly clear in this review.

Compliance statements

Compliance statements were included in almost all the advice we reviewed.

All the examples of advice we reviewed were subject to TAS 100. Some of the advice was also subject to TAS 300, if it covered an incentive exercise, or a scheme modification (both as defined in the scope of TAS 300).

Under TAS 100, compliance statements are required for communications *"in the scope of a specific TAS [for example TAS 300] and technical actuarial work which is*

11 | IFoA: Corporate pensions: actuarial advice given to pension scheme sponsors (2023)

central to a significant decision by the user". Under the TAS framework, 'Communications' are the set of all 'component communications', which are the individual reports, letters, emails etc that make up the overall communication for a particular assignment. The compliance statement may therefore only be present in certain documents. We found TAS 100 compliance statements were used in almost all cases.

Finding 12:

Actuaries used appropriate TAS 100 compliance statements. [TAS 100: 1.7]

Use of TAS 300 was also good. However, there were cases where no compliance statement was given, or conversely it was given unnecessarily. For example, in isolated cases we saw examples relating to GMP conversion and member options exercises not including a TAS 300 compliance statement. In nearly half the examples relating to discretionary pension increases, which are outside the scope of TAS 300, the actuary nevertheless gave a TAS 300 compliance statement.

Finding 13:

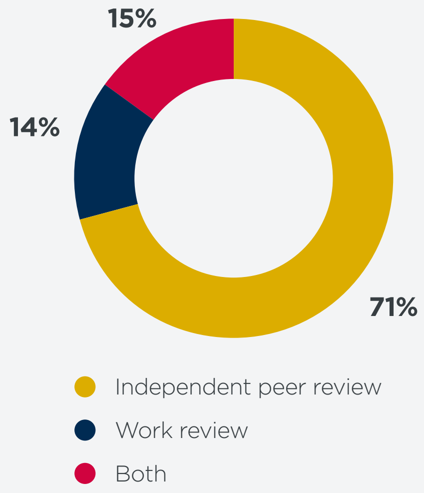
Actuaries were not consistent in the actuarial standards they stated they were following. Some types of pension scheme design advice are covered by TAS 300, although not all actuaries confirmed they were applying that standard. Other types of pension scheme design advice is not covered by TAS 300, although some actuaries nevertheless confirmed they were applying it. [TAS 300 1.7]

The FRC has **recently consulted**[12] on widening the scope of TAS 300 to cover more types of pension scheme design advice. The evidence of this review indicates that it is important that the scope is clear exactly which types of advice fall within TAS 300.

Review of actuarial work

As part of the submission process, we asked how the work had been reviewed, as required by APS X2 Review of Actuarial Work. As can be seen in the pie chart, over 70% of examples were subject to 'independent peer review' and 14% 'work review', as defined in APS X2, with the remainder saying 'both'.

Type of APS X2 review



This indicates a higher level of independent peer review for pension scheme design advice than for corporate pensions advice (where the equivalent figure was 61%) or actuarial factors advice (where it was 62%). This perhaps reflects the more unusual or bespoke nature of the advice under review where some actuaries may consider independent peer review is a more appropriate. In conversations with actuaries, we discussed their approach to work review for the submitted examples.

> "In our organisation, we encourage actuaries to line up an independent peer reviewer at the outset for larger projects, so that they can be available to review different stages of the exercise."

> "An independent partner from another office reviewed the work, and gave feedback. They were not involved in the work, but gives their own advice in this space. All recorded within our standard review process."

12 | FRC: Consultation on TAS 300: Pensions (2024)

Like these two previous pensions-related reviews, we only found isolated examples of APS X2 compliance statements, which are not required under the standard.

Good practice examples

1. The advice in this note is subject to review by an actuary of suitable experience, also employed by [organisation] prior to the advice being issued. The peer review carried out follows the principles set out in APS X2 Review of Actuarial Work.
2. This paper has been peer reviewed by [name of reviewer]

Finding 14:

APS X2 work review was carried out appropriately.

In line with previous pensions-related reviews we found no compliance statements in relation to the Code, which are also not required.

Taking responsibility for work

Finally, we revisited two findings from the corporate pensions thematic review.

In the earlier review we found that some actuaries did not include their names in corporate pensions advice, despite the Code requiring actuaries to *"show clearly that they take responsibility for their work when communicating with users."*

Across this review, a very high proportion of examples included the actuary's name. However, we found isolated examples, in relation to advice being given to the sponsor, where actuaries did not include their names in advice. Although not statistically significant, this suggests that the practice of including the actuary's name in advice is not universal. We would strongly encourage the inclusion of the actuary's name in all advice.

Finding 15:

In isolated examples, actuaries did not include their names in this type of actuarial advice. [Code: 6.2]

Objectives

Another finding from the corporate pensions review was that *"Actuaries do not always articulate their sponsor's objectives in their advice."*

For pension scheme design advice, the nature of the advice relied on there being clear client objectives. We found good evidence of these being stated in the advice.

Good practice example

Next steps: identify [client name]'s values and objectives for any new pensions offer, in the context of its overall reward package.

Conflicts of interest

As part of the submission process, we asked about potential conflicts of interest, particularly in relation to the provision of corporate and scheme actuary work by the same organisation. We also asked about conflicts more generally in discussions with actuaries. Under **APS P1**,[13] *"A Scheme Actuary … should presume that the provision or review by them of Advice to the Employer … to any matter which has a direct bearing on the benefits payable under that Scheme, would give rise to an irreconcilable conflict of interest."*

In 51% of examples the corporate and scheme actuaries worked at different organisations. In those cases where they worked at the same firm, we were told that a conflicts management plan was in place, in line with APS P1.

We found no evidence of the scheme actuary providing pension scheme design advice to the sponsor. No other conflicts of interest were raised in conversations with actuaries.

13 | IFoA: APS P1: Duties and responsibilities of members undertaking work in relation to pension schemes Version 3.0 (2022)

Finding 16:

Actuaries took appropriate steps to avoid potential conflicts of interest.

Views on actuarial standards

As part of the submission process we also asked actuaries to comment on how they would *“describe current actuarial standards and guidance (ethical and technical) applying to this example?”*, making clear the question was optional. This question was answered in only 27% of submissions, with 22% saying ‘just right’ and 5% saying ’too little‘. No respondents said ’too much‘. Among the verbal comments to this question were:

> “TAS 100 and TAS 300 helped to focus the mind on the relevant areas to discuss in this work [closure to accrual], which was helpful given we do not have lots of these cases (though this was not our first one).”

> “Could probably have more in this space to set out expectations for work covering discretionary benefits and surplus sharing, in particular from the member’s perspective. I expect this area will be more relevant for schemes that look to run-on in the future, with a view to generating surpluses for sharing with members.”

> “Actuarial standards are silent on the actuarial considerations for schemes looking to wind-up in future with a material surplus that could be refunded or used for benefit improvements. Standards don’t comment on any specific actuarial considerations that should be brought to a client’s attention in the build up to such a decision.”

We also asked the same question in follow-up discussions:

> “Helpful running through TAS 300, provides a nudge on aspects that may be relevant. It provides a best practice guide”

> “In general I find the TASs helpful, over time they have become shorter and more principles-based. TAS 300 focuses on the key principles in relation to member options work. However, different actuaries could interpret the wording in different ways. Members can lose quite a lot of actual value, and trustees need to know this, but this is not something that the TASs tell you to tell the trustees.”

Business environment

Economic, demographic and regulatory developments

Most of the actuarial advice we reviewed related to benefit changes in 2023 and 2024.

Since issuing the call for submissions for this review, the type of pension scheme design advice that may be requested continues to evolve, for example:

- Improved funding levels leading to further calls for discretionary increases following recent high inflation
- Further adjustments to benefits to remove underpins and other complexities to assist with transactions
- Distribution of surplus to provide additional member benefits on wind-up
- Implications on member benefits of Government proposals on the potential release of 'trapped' surplus to employers for ongoing schemes

In each of these exercises, the potential impact on the benefits of different categories of members will need to be understood by decision-makers. These issues along with the types of advice covered in this review will continue to be considered by both trustees and sponsors, and actuaries will have a role to play in these important discussions.

Finding 17:

The UK DB pensions world is changing with potential benefit changes being made in conjunction with surplus refunds and on winding-up. Trustees and sponsors will need actuarial advice in these areas, alongside the traditional areas of benefit design considered in this review, to ensure that different categories of members are treated appropriately. This means continued challenges and complexities for actuaries providing advice in this domain.

Findings

A full list of our findings is given in the table below. These are set out in the order they have appeared.

The asterisked findings also appear in the Executive summary.

	Findings:
1	There is a wide range of types and formats of advice given by actuaries on pension scheme design.
2*	Actuaries do not always adequately explain how the benefit changes might impact members. Although the advice we reviewed was addressed either to the trustees or the pension scheme sponsor, actuarial standards require the advice to explain how the benefit changes will affect members' benefits and their risks. [TAS 300: 4.1]
3*	Actuaries did not always adequately explain how proposed changes would affect the inflation protection on members' benefits. Many of the types of scheme design considered included changes to the way that benefits are increased each year. The advice did not always cover changes to inflation risks and often did not refer explicitly to the recent UK inflation spike in 2021 to 2024.
4*	Actuaries did not always explain how pension scheme benefit changes may impact on individuals' eligibility for means-tested benefits. Some pension scheme design projects result in a material step-change to the level of a member's pension income. This may affect means-tested benefits. This contrasts with pensions tax, where a step-change in pension income could trigger a tax charge for the individual. The advice we reviewed invariably addressed this point.
5	In isolated examples actuaries did not use terms consistently throughout the member communication, which risks misunderstandings. [Code 6.3]
6	In longer examples, actuaries used good communications practices to increase chance of user understanding. [Code 6]
7	Member options advice referenced the Code of Good Practice.
8	In isolated examples relating to bridging pension options, the actuary did not emphasise the impact on the lump sum.
9	In isolated examples, actuaries providing advice on discretionary pension increases did not cite the relevant pension scheme rule setting out who has a role in deciding on the increase.
10*	The overall standard of advice was good. Submitted material showed consistently sound levels of compliance with relevant standards and guidance.
11	Actuaries did not always adequately indicate the appropriateness of the data for the exercise. [TAS 100: A7.4]

	Findings:
12	Actuaries used appropriate TAS 100 compliance statements. [TAS 100: 1.7]
13*	Actuaries were not consistent in the actuarial standards they stated they were following. Some types of pension scheme design advice are covered by TAS 300, although not all actuaries confirmed they were applying that standard. Other types of pension scheme design advice are not covered by TAS 300, although some actuaries nevertheless confirmed they were applying. [TAS 300 1.7]
14	APS X2 work review was carried out appropriately.
15	In isolated examples, actuaries did not include their names in this type of actuarial advice. [Code: 6.2]
16	Actuaries took appropriate steps to avoid potential conflicts of interest.
17*	The UK DB pensions world is changing with potential benefit changes being made in conjunction with surplus refunds and on winding-up. Trustees and sponsors will need actuarial advice in these areas, alongside the traditional areas of benefit design considered in this review, to ensure that different categories of members are treated appropriately. This means continued challenges and complexities for actuaries providing advice in this domain.

Appendix 1: Scope and approach

We **launched this review**[14] in September 2024 with the following scope:

Pension scheme design

Advice given to trustees or sponsors on changes to member benefits

Actuarial advice is critical when benefit changes are proposed for UK DB pension schemes, as it affects the accrued or future benefits payable to scheme members.

The advice in this area ranges from changes to future benefits (including closure to new accrual) to adjustments to the timing or structure of accrued benefits. The review will look at current practices adopted by actuaries in pension scheme design affecting groups of scheme members. It will also cover the treatment of potential conflicts of interest.

Given the recent period of high inflation, this review is also covering the advice to trustees or sponsors on whether or not to award discretionary pension increases.

The intention to carry out the review was announced in December 2022. The review was widened to include advice relating to discretionary pension increases during the scoping process.

The IFoA website provides more information on the work of the **AMS**[15] and in particular the **thematic review programme**.[16]

Submissions

We invited all organisations employing actuaries providing pension scheme design advice in relation to UK DB pension schemes to take part. We asked organisations to submit appropriately anonymised examples of pension scheme design advice. During initial engagement with organisations, we specifically drew attention to the following types of advice that would be in scope:

- **Member option exercises**
  - Pension increase exchange
  - Other, eg early retirement, bridging pensions
- **GMP conversion**
- **Settlement work**
  - Pre-transaction benefit adjustments
  - Surplus distribution
- **Change in accrual**
  - Amendment or cessation
  - New benefits (including DC and CMP)
- **Discretionary pension increases**

We asked for up to five examples of actuarial advice, depending on the organisation's size.

Participation level

A total of 11 organisations took part in the review, submitting 41 examples of actuarial advice. The organisations are listed below:

- Barnett Waddingham
- First Actuarial
- Gallagher
- Goddard Perry
- Government Actuary's Department
- Hymans Robertson
- Isio
- Mercer
- PwC
- Quantum
- WTW

14 | IFoA pension scheme design thematic review launch (2024)
15 | IFoA Actuarial Monitoring Scheme web page
16 | IFoA Thematic Review Programme web page

We held discussions with actuaries from each of these organisations to help us form the most complete picture of the advice.

The IFoA Review Team wishes to thank all the individuals and organisations that contributed to this thematic review.

Review methodology

The first phase involved reviewing the content of each example of advice received. We looked at the way the advice was presented, the terminology used, and the potential effect of the proposed benefit changes on the affected members. We also tested each example at a high level against the relevant provisions of the Code and APS X2, TAS 100 and TAS 300 (where relevant).

In the second phase of the review, we conducted a series of individual discussions with a subset of the actuaries who had prepared the advice. The purpose of these discussions was to understand their overall approach to this type of advice and to understand how their respective clients (either trustees or sponsors) had received the advice.

We provided individual feedback in relation to each of the examples we received, drawing attention to areas of good practice or areas including in relation to TAS compliance where we recommended improvements could be made.

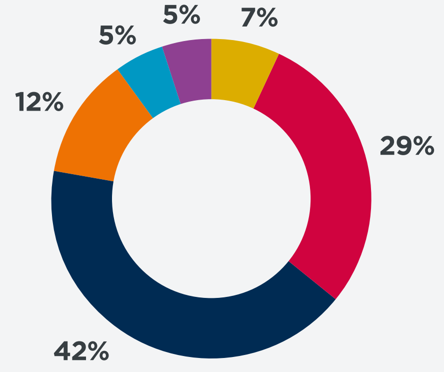
About the examples

Where organisations submitted more than one example, we asked for the examples to be distinct, for example in terms of the nature of the advice and size/status of scheme. We reviewed 41 examples that we believe demonstrated a good range. The charts below show the features of the schemes covered by the examples we received. Although our review was not designed to be statistically representative, it appears from the pie charts below that we obtained a reasonable range across a wide variety of scheme types. The majority of the actuarial advice we reviewed was carried out in 2022, 2023 and 2024.

The distribution of schemes covered by the examples is comparable to that seen in our previous two thematic reviews where we considered examples of pension scheme advice. For example, in this review 59% of the examples related to schemes with assets over £100 million. This compared to 40% in the **Actuarial factors thematic review**,[17] and 59% in the corporate pensions thematic review, In terms of scheme status, 63% of schemes were closed to new entrants and accrual in this review compared to 60% in the actuarial factors review and 79% in the corporate pensions review.

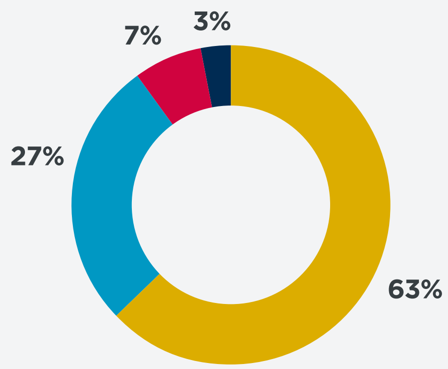
About the scheme

Size



- <£10m
- £10m - 99m
- £100m - 999m
- £1bn - £9bn
- £10bn+
- Not answered

Status



- Closed to new entrants and accrual
- Closed to new entrants but open to accrual
- Open to new entrants and accrual
- Not Answered

Where there was more than one scheme covered by the advice, we asked for the aggregate size and the status for any remaining active members across the schemes.

17 | IFoA: Pensions: actuarial factors used to calculate benefits in UK pension schemes (2020)

Appendix 2: References

No.	Title	Author	Description
1	**TAS 300: Pensions, version 2.0 (2023)**	FRC	FRC technical standard for specified types of pensions work (applying from 1 April 2024)
2	**TAS 100: General actuarial standards, version 2.0 (2023)**	FRC	FRC technical standard applying to all actuarial work (applying from 1 March 2023)
3	**Technical Actuarial Guidance: Proportionality (2024)**	FRC	FRC guidance to assist practitioners in applying proportionality when complying with the TASs.
4	**The Actuaries' Code, version 3.1 (2023)**	IFoA	The ethical Code of Conduct to which all members of the IFoA must adhere
5	**Standard Setting at the IFoA (2020)**	IFoA	As part of its regulatory function, the IFoA sets and maintains a framework of standards and non-mandatory guidance
6	**APS X2: Review of Actuarial Work (2015)**	IFoA	APS X2 imposes requirements in relation to Work Review and Independent Peer Review for all IFoA members
7	**Rising cost of living in the UK (2024)**	House of Commons library	Parliamentary briefing providing an overview of the period of high inflation in the UK between the end of 2021 and mid-2024.
8	**Incentive Exercises for Pensions – A Code of Good Practice, version 2 (2016)**	Incentive Exercises Monitoring Board	Industry-led voluntary code of good practice for member incentive exercises
9	**Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank PLC and others (2018)**	England & Wales High Court	Key court decision relating to GMP equalisation and conversion
10	**Guidance on the use of the GMP conversion legislation (2019)**	DWP	Guidance on the steps pension schemes should take in GMP conversion
11	**Corporate pensions: actuarial advice given to pension scheme sponsors (2023)**	IFoA	This review looked at the advice provided by actuaries to sponsors relating to funding and strategy
12	**Consultation on TAS 300: Pensions (2024)**	FRC	Consultation on changes to TAS 300, in particular in relation to scheme funding, but also covering scope

No.	Title	Author	Description
13	**APS P1: Duties and responsibilities of members undertaking work in relation to pension schemes, version 3.0 (2022)**	IFoA	APS P1 imposes requirements on members providing advice to pension schemes, including provisions relating to conflicts of interest
14	**Pension scheme design thematic review launch (2024)**	IFoA	Thematic review launch
15	**Actuarial monitoring scheme**	IFoA	IFoA web page for AMS
16	**Thematic review programme**	IFoA	IFoA web page describing the thematic review programme
17	**Pensions: actuarial factors used to calculate benefits in UK pension schemes (2020)**	IFoA	This review looked at current practices adopted by actuaries advising on commutation rates and transfer values in the calculation of benefits for UK pension schemes

Appendix 3: Abbreviations

List of abbreviations used in this report

Abbreviation	Full term
AMS	Actuarial Monitoring Scheme
APS	Actuarial Profession Standard
DB	Defined benefit
DC	Defined contribution
DWP	UK Government Department for Work and Pensions
FRC	Financial Reporting Council
GMP	Guaranteed minimum pension
IFoA	Institute and Faculty of Actuaries
TAS	Technical Actuarial Standard
the Code	The Actuaries' Code
TPR	The Pensions Regulator

Institute and Faculty of Actuaries

Thematic Review report

June 2025

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